

Department of Alcoholic Beverage Control

Presentation to Senate Finance
Public Safety Subcommittee

January 10, 2014



Points to Cover

Revenue Outlook
& Budget
Requirements

2013
Accomplishments

2015-16
Agency Priorities

Questions &
Answers

Revenue Outlook



- National Outlook
 - “Distilled spirits are forecasted to climb by **2.1%** annually through 2017, led primarily by Vodka, Cordials, Rum, Straight Whiskey and Tequila.”
- FY 2014 Sales Tracking According to Forecast
 - Retail still driving the show with slight increase in restaurant sales
 - Sunday Sales: Glow from Sunday sales already tempering. Currently up 6% over last year and slowing as the year progresses
 - Growth Categories: Moonshine, Bourbon, Cordials, Vodka
 - Growth Brands: Fireball, Tito’s Vodka, 1800 Tequila, Ciroc Peach, Jameson Irish
 - Sales and profits currently tracking according to current FY2014 Budget Requirements
- Outlook for FY 2015-16
 - Projecting moderate growth in sales in line with national averages
 - Expect slight growth in profits for FY15/16
 - Key risk points:
 - Unknown salary and benefit rates
 - Unforeseen changes in demand



Budget Requests

- ABC operates as an Enterprise Fund....meaning appropriation provides authority but not actual funding.
 - All funds have to be generated through operations (sales, license fees, penalties, etc.)
 - Ultimately, statutory profit requirements govern spending as much as appropriation limitations
- FY 2015-16 budget requests ensure continuity of operations for the biennium
 - Merchandise for Resale (\$59.8M): Provides appropriation to purchase products for resale over the next two years
 - New Stores (\$3.8M): Request covers staffing, rent, fixtures, POS system, utilities, etc. and plus additional MEL required to meet 29 hour limitations
 - IT Systems Infrastructure (\$5.3M): Replacement for ABC's licensing and financial systems
 - Enforcement Appropriation (\$1.0M): Addresses appropriation required to cover costs of recent increases in salaries and benefits

FY 2013 Agency Accomplishments

- Record Sales of \$769M and profits of \$134.5M. Total agency contributions to the General Fund total over \$369M
- Opened 7 New Stores and Modernized/Relocated 22 stores
- Weathered the 29 Hour Storm—Hired over 600 additional part time employees bringing the total workforce to over 3,000
- Created New Marketing Division
 - Modernizing product management procedures (now list new items each quarter)
 - Enhanced supplier relations through quarterly supplier meetings
 - Established supplier partnership to improve product management effectiveness
- Licensing and Enforcement
 - Centralized License Processing to improve consistency
 - Established Source Investigation Protocols
 - Completed Comprehensive Regulation Review



Top Agency Priorities



- Public Safety
 - Standardize and improve operating procedures (Accreditation)
 - Strengthen education and prevention initiatives
- Customer Service
 - Continue new store openings and modernizations
 - Enhance product management procedures & special order capabilities
 - Continue to improve the licensing process
- Revenue
 - Continue growth in revenue contributions
 - Reduce energy consumption
 - Increase SWAM participation
- Workforce Development
 - Address retirements & changing skill sets
 - Develop model ethics program
- Technology (APA Point)
 - Improve project management & cost control
 - Address information security and risk management requirements
 - Strengthen web presence
 - Replacing aging systems (including licensing, tax collections and financial systems)



Specific Discussions

- Charlottesville Incident
 - Not a systematic problem
 - Procedures modified to ensure incident isn't repeated
- Field Support Vehicle
 - Used to support large scale licensed events (NASCAR, Foxfield, etc.)
 - Significant resource for localities
 - No state resources used for its purchase



Agency Facts and Figures FY 2013

Historical Trends in Contributions

Financial Results in Brief, Fiscal Year 2013

Revenue Source	FY 13	FY 12	FY 11	FY 10	FY 09
ABC profit transfers (1)	\$ 134,576,751	\$ 132,021,784	\$ 121,013,600	\$ 120,509,682	\$ 111,822,139
State taxes (2)	126,802,220	120,988,748	114,201,593	111,293,220	109,642,969
General sales tax (3)	31,263,867	29,617,739	27,889,207	26,906,495	26,224,280
Wine liter tax (4)	34,400,161	33,457,628	32,171,151	30,580,004	30,050,875
Malt beverage tax (5)	42,846,308	43,660,370	43,915,010	44,454,535	44,582,722
Total	\$ 369,889,307	\$ 359,746,269	\$ 339,190,561	\$ 333,743,936	\$ 322,322,985

(1) *Source:* "Statement of Revenues, Expenses and Changes in Net Position." Profits are reported in accordance with generally accepted accounting principles. Profits include licensing fees and ABC's portion of the wine liter tax.

(2) *Source:* "Notes to Financial Statements 4.B. General Fund." State tax on distilled spirits = 20 percent. State tax on wine sold in ABC stores = 4 percent.

(3) *Source:* "Notes to Financial Statements 4.C. Department of Taxation—Sales Tax." General sales tax rate is 5 percent.

(4) *Source:* "Notes to Financial Statements 4.B. General Fund." The non-ABC portion of the wine liter tax = \$.40 per liter. \$9,141,363 of the wine liter tax is transferred to the Virginia Department of Behavioral Health and Developmental Services.

(5) *Source:* "Notes to Financial Statements 8. Collections of Malt Beverage Tax."

Review of Agency Expenses

Category	(In Millions)
Merchandise for Resale (Alcohol, Virginia Wine, Mixers)	\$373.9
Personnel	\$90.9
Continuous Charges (Rents & Utilities)	\$25.2
Contractual Services (VITA/Freight)	\$19.6
Credit Card Fees	\$6.9
Supplies and Equipment	\$5.4
Miscellaneous (Largely Depreciation)	\$3.4
Grand Total	\$525.3

2013--Top 25 Brands

ABC has over 2,600 items on its price list

Rank	Brand	Gross Sales
1	Jack Daniel's 7 Black Tennessee Whiskey	\$25,018,476
2	Smirnoff 80 Domestic Vodka	\$19,532,760
3	Jim Beam Straight Bourbon	\$17,593,209
4	Grey Goose Imported Vodka	\$16,944,481
5	Crown Royal Canadian Whisky	\$16,022,401
6	Absolut Imported Vodka	\$15,334,309
7	Aristocrat Domestic Vodka	\$13,170,079
8	Captain Morgan's Spiced Imported Rum	\$12,683,404
9	Hennessy VS Cognac\Armagnac*	\$12,658,311
10	Bacardi Superior Domestic Rum	\$12,585,587
11	Patron Silver Tequila	\$11,551,097
12	Jagermeister Cordials	\$11,492,692
13	Maker's Mark Straight Bourbon	\$10,695,845
14	Jose Cuervo Especial Gold Tequila	\$9,736,982
15	Pinnacle Imported Vodka	\$9,028,706
16	Seagram's Extra Dry Domestic Gin	\$7,932,539
17	Fireball Cinnamon Imported Cordials	\$7,870,381
18	Jameson Irish Whiskey	\$7,380,834
19	Bowman's Virginia Domestic Vodka	\$6,960,903
20	Skyy Domestic Vodka	\$6,711,207
21	Ketel One Imported Vodka	\$6,386,509
22	Burnett's Domestic Vodka	\$6,344,029
23	Tanqueray Imported Gin	\$6,223,720
24	Canadian Mist Canadian Whisky	\$5,320,833
25	Grand Marnier Cordon Rouge Cordials*	\$5,301,615

Category Performance

Category	FY2013 Cases Sold	Market Share	Percent Change
Vodka	1,396,567	32.5	0.9
Cordials	450,782	10.5	8.9
Straight Bourbon Whiskey	429,988	10.0	7.3
Rum	424,539	9.9	(0.2)
Gin	244,341	5.7	(0.8)
Tequila	219,623	5.1	5.2
Canadian Whisky	173,679	4.0	3.9
Scotch Whiskey	143,184	3.3	3.9
Brandy	134,537	3.1	(2.9)
Tennessee Whiskey	101,214	2.4	1.1
Blended Whiskey	96,777	2.3	0.1
Cognac\Armagnac	86,930	2.0	4.8
Cocktails	71,662	1.7	(13.1)
Specialty Bottles	46,262	1.1	(3.1)
Domestic Whiskey	39,881	0.9	1.7
Irish Whiskey	32,013	0.7	15.9
Corn Whiskey	24,643	0.6	107.8
Egg Nog	12,881	0.3	17.9
Straight Rye Whiskey	6,647	0.2	49.5
Rock & Rye	1,419	0.0	9.5
Bottled in Bond Whiskey	584	0.0	54.7
Alcohol	49	0.0	12.1
Vermouth	15,821	0.4	0.8
Virginia Wine	12,087	0.3	8.1
Non-Alcoholic Mixers	106,037	2.5	(7.1)
Non Beverage Item	20,978	0.5	5.0
Statewide Total	4,293,125	100.0	2.4

Top 25 Stores

Rank	#	Address	Locality	Gross Dollars ¹	Spirits & Wine Taxes ²	Adj. Net Profit	Rate of Return To VA
1	256	1612 Laskin Road	Virginia Beach City	\$8,487,325	\$1,402,047	\$1,883,868	38.72
2	225	405 30th St	Virginia Beach City	\$7,001,529	\$1,153,698	\$1,552,206	38.65
3	278	3333 Virginia Beach Blvd	Virginia Beach City	\$6,440,523	\$1,054,888	\$1,461,001	39.06
4	219	8338 Leesburg Pike	Fairfax County	\$6,167,351	\$1,010,688	\$692,853	27.62
5	282	2400 Cunningham Drive	Hampton City	\$5,934,201	\$979,517	\$1,260,602	37.75
6	169	10 North Thompson St	Richmond City	\$5,904,685	\$959,069	\$1,381,286	39.64
7	327	1332 South Main St	Montgomery County	\$5,799,671	\$960,024	\$1,289,148	38.78
8	202	1902 Emmet Street	Charlottesville City	\$5,739,738	\$941,025	\$1,236,370	37.94
9	280	1103 South Military Highway	Chesapeake City	\$5,738,341	\$947,111	\$1,283,909	38.88
10	360	2901 Hermitage Road	Richmond City	\$5,547,743	\$909,691	\$1,403,016	41.69
11	358	4312 Wheeler Avenue	Arlington County	\$5,509,073	\$912,590	\$1,261,581	39.47
12	226	7862 Tidewater Drive	Norfolk City	\$5,418,955	\$898,447	\$1,115,405	37.16
13	107	141 W Virginia Beach Blvd	Norfolk City	\$5,384,081	\$892,867	\$1,096,494	36.95
14	353	4255 Cheshire Plaza	Prince William County	\$5,151,211	\$848,845	\$996,192	35.82
15	336	1067 Independence Boulevard	Virginia Beach City	\$5,121,298	\$846,273	\$1,045,941	36.95
16	314	4320 S. Laburnum Ave	Henrico County	\$5,108,242	\$841,596	\$1,071,761	37.46
17	331	3406 Pump Road	Henrico County	\$5,102,892	\$838,406	\$1,079,918	37.59
18	350	11108 Midlothian Tnpk.	Chesterfield County	\$5,086,520	\$837,730	\$1,127,102	38.63
19	374	2955-A South Glebe Road	Arlington County	\$5,056,005	\$838,783	\$1,031,506	36.99
20	184	2035 East Market Street	Rockingham County	\$5,055,957	\$834,619	\$1,062,578	37.52
21	341	621 Stoney Creek Lane	Newport News City	\$4,891,630	\$808,059	\$999,972	36.96
22	263	5900 Virginia Beach Blvd	Norfolk City	\$4,861,955	\$806,023	\$987,216	36.88
23	295	8095 Sudley Road	Prince William County	\$4,694,162	\$773,185	\$811,095	33.75
24	294	3556-E S. Jefferson St.	Fairfax County	\$4,669,866	\$767,546	\$764,687	32.81
25	119	901 North St. Asaph St	Alexandria City	\$4,651,942	\$765,733	\$1,014,454	38.27

Licensing & Enforcement Activity

Licenses and Licensing

ABC retail licenses (1)	17,687
New retail, wholesale and special-permit licenses	1,799
Licensed retail establishments	16,496
Private or corporate owners	12,934
Alcohol compliance rates for retail licensees (%) (2)	85.7
Average processing time for new retail applications (in days) (3)	78
One-day banquet and special-event licenses	18,330

(1) Inclusive of licenses for sale and consumption of beer and wine, mixed beverages, on- or off-premises.

(2) FY 12 rate: 87 percent

(3) FY 12: 80 days. ABC targets a 60-day average.

Law Enforcement Activity

Criminal investigations	9,832
Arrests	2,201
Illegal still investigations	38
Inspections of licensed establishments	9,050
Underage Buyer (UAB) compliance checks	3,804
ABC special agents	103
Written warning reports	1,224
Written violation reports	739
Wine, beer and mixed-beverage application and state license fees collected	\$12,444,253.74

Cases Referred for Hearings

Case Activity	Count
Violation/disciplinary reports	744
Contested applications	38
• Approved	13
• Denied	9
• Withdrawn before hearing	16
Contested banquet applications	3
• Approved	1
• Denied	1
• Withdrawn before hearing	1
Wine and beer franchise cases	1
Total hearings requested	786

ABC's Workforce

Employees and Hiring

Total employees (as of June 30, 2013)	3,107
Total classified employees	1,046
Total part-time employees	2,061
Classified employees hired in FY 13	142
Part-time employees hired in FY 13	1,170

ABC employs a diverse workforce, with approximately 1,046 classified employees, 2,061 wage employees, and 22 contractors. These 3,107 agency employees work throughout the commonwealth operating 343 retail stores and eight regional offices. Approximately 416 employees are located in Richmond at the central office and warehouse facility.

Employee Demographics

Average age (years) (1)	46.9
Average years of service, classified employees (2)	11.1
Gender: male (%) (3)	58.1
Gender: female (%) (3)	41.9
Minority (%) (4)	29.9

The demographics of ABC's workforce are generally consistent with the overall state workforce. Nearly 71 percent of state classified employees are over the age of 40, 54.1 percent are female and 34.8 percent are minorities. The average age of an ABC classified employee is 46.9 years, with an average length of service of 11.1 years. ABC has a high number of retirement-eligible classified employees: 148 employees (14.5 percent of FTE positions) are eligible to retire currently, an additional 59 employees (5.8 percent FTE positions) within the next five years, and an additional 84 employees (8.2 percent FTE positions) eligible within 10 years.